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SUBJECT: DAS HENGEL TALKS ENERGY SECURITY WITH THE EU

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Sensitive but Unclassified - not for Internet distribution.

11. (SBU) Summary. On February 5 DAS Doug Hengel gave a well received presentation on "Oil and Gas Pipelines: the US Perspective" to a conference on "Investing in Europe's Energy Future" organized by the French Institute of International Relations (Ifri) in Brussels. Following the conference on February 6 Hengel met with EU officials to exchange views on opportunities to enhance European energy security. A recurring theme in these meetings was the importance of building interconnections between member states and reforming the internal market. EU officials also stressed the importance of opening the Southern Corridor as a way to diversify Europe's energy supplies. End Summary.

12. (SBU) On February 5, DAS Doug Hengel gave a presentation on "Oil and Gas Pipelines: the US Perspective" to a conference on "Investing in Europe's Energy Future" organized by the French Institute of International Relations (Ifri) in Brussels. DAS Hengel's remarks were well received by the participants who included representatives from the EU, Member States, NGOs, and press. DAS Hengel outlined how the U.S. views European energy security and stressed the commonality of U.S. and EU desires to address EU energy security challenges, notably the need to build a common, interconnected, competitive internal market for natural gas and electricity and the need to look to diversify Europe's sources for natural gas by moving forward on the Southern Corridor as well as opportunities for LNG and the potential for developing non-conventional gas deposits in Europe. DAS Hengel also stressed that Iran must remain off-the-table as a source of gas for the Southern Corridor.

13. Following the conference, DAS Hengel met on February 6 with EU Commission and Council officials to discuss energy security. In a meeting with Jean-Arnold Vinois, Head of Unit for Energy Policy & Security of Supply at DG-TREN, Vinois said that the principal energy security challenge the EU faces is integrating eastern Europe into the internal market. Gazprom wants to maintain the monopoly position it enjoys in many eastern States so the EU needs to find the right incentives to build new infrastructure to interconnect the currently isolated national markets. Following the Ukraine/Russia gas crisis the Commission is re-examining the 2004 Security of Gas Supply directive with an eye to how it can be strengthened. The Commission's goal is to have a new proposal before the Summer recess. Energy Minister's was scheduled to discuss their ideas on the gas directive on February 19, the Council's Gas Coordination Group will discuss the topic in more detail on February 23. The topic could then be raised at the Spring Council on March 19 as

part of their response to the Commission's Second Strategic Energy Review.

14. (SBU) Dr. Klaus Gretschnann, the EU Council's Director-General for the Internal Market, Customs Union, Industrial Policy, Telecommunications, Information Society, Research, Energy, and Transport, discussed some of the options he sees for the EU in terms of diversity of supply. In Gretschnann's opinion establishing an interconnected single European market for natural gas and electricity is the key for achieving energy security. Gretschnann opined that the EU would stick to its Nabucco strategy, but may seek to enlarge the role of LNG. Gretschnann said that the Russia/Ukraine crisis had shown that the consumer could be blackmailed by transit countries just as easily as by producer countries. Gretschnann stressed that the EU learned a lot about how the gas system works and doesn't work during the crisis. He sees a need for the EU to tackle the problem of building interconnection. Gretschnann also said he believes the EU may look at a public/private model for funding the Nabucco pipeline project. He said that getting gas from Turkmenistan will be important, but the EU needs to solve the transit problem first. And for transit, the big question remains in Turkey. On the question of the money for infrastructure projects included in the European Recovery Project, Gretschnann saw this as a very political issue and said "All Hell broke loose" over which country and which project will get what.

15. DAS Hengel met with Faouzi Bensarsa, DG-RELEX Energy Counselor for an exchange focused on U.S.-EU cooperation on Ukraine's energy infrastructure (see reftel). Bensarsa also

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discussed his outlook for the Southern Corridor. He said the EU is fully committed to establishing a trans-Caspian corridor for gas. There are not technical obstacles, but the issues of Caspian delimitation, political agreements, and security will have to be addressed to make trans-Caspian gas flow a reality. Bensarsa opined that ultimately the public sector would have to provide risk coverage for any new Caspian projects. In his mind, no private company would be able to take the risks by itself in the post Russia/Georgia conflict environment.

16. Steven Everts, Advisor to EU High Representative Javier Solana, told DAS Hengel that he expected the March Council to take real decisions on energy security and expected that they could wrap up the Third Energy Package. He said that over the last two years the EU has built a consensus on what energy policy should be and the debate has been accelerated by the Russia/Ukraine gas crisis. Everts expects the debate going forward will focus on the internal market, gas stocks, and building interconnections. On the Southern Corridor, Everts acknowledged the importance of Turkmenistan as a potential gas supplier, but said a lot hinges on the reaching an agreement for gas transit between Azerbaijan and Turkey. DAS Hengel urged that senior level EU officials visit Turkmenistan to press for private sector companies to be allowed to develop Turkmen energy resources; otherwise these resources will not be available for export. Everts was not optimistic about the possibility of the EU opening the Energy Chapter with Turkey. Everts said that for Solana, energy is only part of a larger relationship with Turkey. Solana views energy as part of a broader context and considers it to require a long term process of building relationships, especially with Azerbaijan.

17. (SBU) Comment. Like the meetings DAS Bryza had with EU officials the prior week, DAS Hengel's discussions revealed a clear focus on the need to accelerate actions to enhance EU energy security in light of the Russia/Ukraine dispute. The Russia/Ukraine "wake up call," however, does not seem to translate into a willingness to engage in a more robust manner with Turkey to push forward the transit agreement necessary to make the Southern Corridor a reality. In their

meetings with Hengel EU officials underlined the difficulties in opening the Energy Chapter with Turkey and seemed to be looking for the US to deliver an Azeri-Turkey deal." End Comment.

Murray

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